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AMERICA'S FINANCIAL POSITION AS AFFECTED BY THE WAR

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The two weeks' period between July 24 and August 7 of 1914 marked the creation of a new epoch in international finance, especially for the United States. During the first week in this period, extraordinary fluctuations in exchange indicated that some portentous event was impending and the second week, after the happening of the event, marked the dislocation, if not the destruction, of the entire financial machine. Ruin seemed to be the inevitable result of the great catastrophe, but its very immensity served to bring about a unity of purpose to restore order from chaos and to recreate the necessary mechanism for the restoration of international transactions. These efforts involved a series of unprecedented remedial methods: the closing of exchanges; the resort to clearing house certificates for settlement of balances between the banks, involving the cessation of payments in gold; the issue of emergency currency; the creation of a gold fund, and of a fund to carry the surplus of a record cotton crop. These are recited merely to illustrate the tremendous difficulties which confronted the bankers of the country and the hard work necessary to restore a semblance of normal conditions. Fortunately, there was a ready public recognition of the necessity for such measures and the runs on banking institutions usual at such times were averted.

For some time prior to the declaration of war, our indebtedness on current account to the European financial centers had been steadily growing so that on August 1 that debt had assumed the very substantial proportions of somewhere between \$250,000,000 and \$400,000,000. In the attempt to avert gold shipments, exchange rates soared to unprecedented figures, transactions taking place at the rate of \$6.50 for sterling exchange, and remaining at \$5.00 for a protracted period. Of course, it was essential in order that the credit of the United States might not be seriously prejudiced, that this discount on American exchange should be

reduced. The bankers of the country, therefore, consented to make contributions to a gold pool of \$100,000,000 and this, in connection with the beginning of a favorable trade balance, shortly restored exchange equilibrium.

For several years prior to 1914 our financial position left much to be desired. Securities were discredited, and at an unfavorable time we were compelled to absorb liquidation by foreign investors which, under the circumstances, entailed great depreciation in the market value of all issues. We had for so many years depended upon the savings of other countries, particularly Great Britain, to finance a part of our undertakings, that we were some time in realizing that we must henceforth depend upon our own financial resources. This forced a period of economy, which was evidenced in the enormous growth of our bank deposits.

Steps taken by the warring nations to protect their gold reserves offered an opportunity to this country to secure a leading position in the world of finance. Fortunately for us, it so happened that the organization of the federal reserve system had just been completed, conferring powers for purchasing bank acceptances and rediscounting, with consequent currency issuing. This for the first time rendered possible the creation of dollar exchange. The abnormal situation in Europe made this step so logical that it met with ready acceptance from all quarters. Bills which had heretofore been drawn on London in sterling were now beginning to be drawn on New York in dollars. This particularly applied to the Latin American republics; commercial transactions with those countries, which under customs prevailing before the war had been settled through London, are now cleared through New York.

The war forced the return to this country of thousands of Americans traveling abroad and a consequent saving for this country of immense sums which were currently spent on the other side. Imports of merchandise showed an enormous shrinkage and as we almost immediately began to supply the necessities of the warring countries in the way of foodstuffs, etc., our exports reached large proportions. The balance of trade in our favor enabled us, therefore, soon to pay off our debit balance, and a large credit balance took its place. To the extent to which foreign holders of our securities were willing to sell we have repurchased from them, but this liquidation since the war although of considerable volume is but a

comparatively small percentage of their total holdings. The balance of their current indebtedness to us must be discharged in other ways. We have in some cases purchased their short-time obligations and in others granted credits. We are not yet prepared to take their long-time obligations. That time will arrive after the declaration of peace.

The reversal in our financial position has been so sudden and complete that it really has been little less than revolutionary. Most of our financiers have had little experience or training in international finance to meet the conditions involved in this sudden change. In addition to this lack of experience we had to cope with defective financial machinery. It was not until the national monetary commission published the result of its investigations of European methods that this country began clearly to see how necessary it was that we should depart from our archaic methods and adopt a banking system which would enable the creation of an acceptance and discount market. These views and findings of the commission were wisely incorporated in the federal reserve law and comprise the chief measure of benefit that the country now derives from that act. State institutions have availed of this new feature in granting acceptances to a larger extent than the national banks.

London has not yet drawn any bills of exchange in dollars. When that is once done we may pride ourselves upon our progress. London financiers recognize our new efforts in the field of finance and applaud our aspirations. No obstacles from that quarter will be interposed. At the present time she is concentrating all her efforts on the one object of financing the war. Nevertheless we must recognize that she will maintain as strong a grip as possible upon the markets which she previously controlled, and our credit will be only temporary unless we make our dollar exchange stable and desirable.

It is essential that our manufacturers who desire to export their products should develop an efficient export organization. To this end they must study the markets which they desire to supply and be prepared to take the financial responsibility involved in the granting of credits and not leave this important feature to agencies. In the final analysis the manufacturer exporter must take the risks of export business rather than the banker. Our

manufacturers desiring to export must understand that they must use the same intelligence in meeting foreign markets as they do in taking care of their domestic business. The clearing of all this business should, in the main, be done through New York.

The conclusion of the war will create new conditions and the greatest demand will then be made upon financial America. The destruction and wastage of capital occasioned by the war has been estimated on the basis of a year's duration at \$40,000,000,000; and while it may not be necessary to restore all of this at once, yet from present indications the demand on us will be enormous. First, there will be the call on our merchants to furnish materials in connection with the rehabilitation or rebuilding of the devastated country and, secondly, we will have to give credit either through making direct loans or through the repurchase of American securities held abroad. From present indications the foreign investors will part from our securities slowly and will be tempted to liquidate only at high prices. It is more than probable that several of the foreign countries will ask us for some of our gold in order that they may restore or build up their gold reserves. These demands upon our financial resources seem to presage more than an active and firm money market.

There is no doubt that should we continue to practice economies and follow the sound business methods which we have recently pursued, we will not only have abundant resources for our own prosperous business but also be able to take care of the reasonable demands of other nations.